



Eicher Motors Ltd (EIML)

Background & Business

Incorporated in 1982, EIML, promoted by Delhi based Vikram Lal group, is one of the leading players in the domestic 2W & CV industry. The former business is housed under the standalone entity, which is engaged in manufacturing & distribution of the iconic motorcycle brand “Royal Enfield (RE)”. The latter business of CVs is through a JV with AB Volvo, Sweden housed under VE Commercial Vehicles (VECV – formed in 2008) in which EIML has 54.4% economic interest. The areas of business of VECV are – Eicher Trucks & Buses, Volvo Trucks India, VE Power Train, Eicher Engineering Solutions & Eicher Engineering Components. Company has exited its 50:50 JV with US-based power sports major Polaris Industries, for manufacture of a range of PVs suitable for India & other emerging markets.

From : 30-05-2014
To : 31-05-2019
Performance : 199%
Recommendation : CLOSED

Exit Rationale

The company’s Royal Enfield had witnessed a good double-digit growth in the past however it has not been immune to the recent slow down in the two-wheeler and auto sector which is expected to prevail for some time in the future. The response to company’s new launches has also been lukewarm affecting its margins. The CV industry is also showing signs of a cyclical slowdown which might put further pressure on its performance. This makes us believe that the high PE multiple of ~24x will be hard to maintain and hence recommended exiting the stock as of now.

Outlook

As per the rationale highlighted above, we expect EIML’s demand environment to remain weak which limits the upside potential in near-term and feel there are other attractive investment opportunities. However, we will continue to monitor all the developments in the company and would take a re-look at owning the stock as and when the demand scenario improves and the valuations look inexpensive.



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